

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 ICA-20 AID-05  
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 L-03 H-02 PA-02 /136 W  
-----111424 121927Z /43

P R 121912Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8047  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR  
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: ECON, UK  
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 6 - 12

SUMMARY: WHOLESALE PRICE INCREASE MODERATED IN JUNE.  
REVISED FIGURES SHOW MORE RAPID GROWTH IN FIRST QUARTER  
GDP. THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR)  
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FOR THE FIRST QUARTER OF FY 78/79 IS MORE OR LESS IN LINE  
WITH OFFICIAL FORECASTS. ELIGIBLE LIABILITIES FELL  
SLIGHTLY IN THE JUNE BANKING MONTH. GILTS ADVANCED MOD-  
ESTLY. STERLING HAD A FAIRLY STRONG WEEK. END SUMMARY

1. REVISED GDP DATA. SHARPLY INCREASED INVENTORY ACCU-  
MULATION AND SLIGHTLY STRONGER FIXED INVESTMENT RESULTED

IN AN UPWARD REVISION OF 0.6 PERCENT IN THE EXPENDITURE-BASED GDP FIGURES FOR THE FIRST QUARTER OF 1978. AS A RESULT, THE AVERAGE RISE IN GDP BETWEEN THE FIRST QUARTER OF 1978 AND THE FOURTH QUARTER OF 1977 IS NOW 0.8 PERCENT AS COMPARED WITH THE INITIAL ESTIMATE OF 0.5 PERCENT. THE FOLLOWING TABLE SUMMARIZES THE LATEST QUARTERLY DATA:

(1970 EQUALS 100, S. A. )

	EXPENDITURE BASED	INCOME BASED	OUTPUT BASED	AVERAGE
1977-I	111.1	109.7	110.6	110.5
II	111.9	111.4	109.5	110.9
III	112.2	110.7	110.6	111.1
IV	112.0	110.5	111.1	111.2
1978-I	112.9	111.3	112.0	112.1

(PERCENT CHANGE FROM PREVIOUS QUARTER EXPRESSED  
AT ANNUAL RATE.)

1977-I	- 5.3	- 5.4	1.5	- 2.9
II	2.9	6.2	- 4.0	1.5
III	1.1	- 2.8	4.0	0.7
IV	- 0.7	- 0.7	1.8	0.4
1978-I	3.2	2.9	3.2	3.2

FIRST QUARTER PERSONAL INCOME, EXPENDITURE AND SAVINGS DATA REVEAL A SHARP DECLINE (16.2 TO 14.1 PERCENT) IN THE SAVINGS RATIO AND A SMALL DROP (0.3 PERCENT) IN REAL PERSONAL DISPOSABLE INCOME (RPDI) FROM THE PREVIOUS QUARTER.  
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THE LATTER SHOULD BE SEEN IN THE CONTEXT OF A FOURTH QUARTER FIGURE WHICH WAS BOOSTED BY A SUBSTANTIAL TAX REBATE. NEVERTHELESS, FIRST QUARTER RPDI IS 2.8 PERCENT ABOVE ITS LEVEL OF A YEAR AGO. SOMEWHAT MORE INDICATIVE OF RECENT TRENDS IS THE 5.1 PERCENT AVERAGE RISE IN RPDI BETWEEN THE LATEST TWO QUARTERS AND 1977-II AND III.

THE DECLINE IN THE SAVINGS RATIO WAS PRODUCED BY A SHARP RISE (4.3 PERCENT) IN NOMINAL CONSUMER EXPENDITURE AND A MUCH SMALLER RISE IN NOMINAL DISPOSABLE INCOMES (1.8 PERCENT). THE RISE IN AFTER-TAX INCOMES WAS RESTRAINED BY THE ABSENCE OF ANY TAX REBATES IN THE FIRST QUARTER. THE FOLLOWING TABLE SETS OUT THE MOST RECENT DATA ON PERSONAL DISPOSABLE INCOMES EXPRESSED IN 1970

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 L-03 H-02 PA-02 /136 W  
-----111489 121931Z /50

P R 121912Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8048  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
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PRICES:

BILLIONS OF POUNDS			
PERCENT CHANGE FROM			
		12 MONTHS EARLIER	SAVINGS RATIO
1977-I	10.281	- 1.6	14.8
II	10.026	- 2.7	13.8
III	10.131	- 3.5	12.9
IV	10.607	2.3	16.2
1978-I	10.572	2.8	14.1

2. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS  
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THE CENTRAL GOVERNMENT BORROWING REQUIREMENT WAS 465  
MILLION POUNDS IN JUNE. THE FOLLOWING TABLE SUMMARIZES  
THE MOST RECENT CUMULATIVE AND MONTHLY DATA:

POUNDS MILLION  
CONSOLIDATED FUND  
1978-79 1 APRIL -

	BUDGET	30 JUNE	JUNE		
	FORECAST	1977	1978	1977	1978
REVENUE	42,746	8,709	9,459	2,840	3,097
EXPENDITURE	51,378	10,267	12,051	3,300	3,829
DEFICIT	-8,632	-1,558	-2,592	-460	-732
NATIONAL LOANS FUND (1)					
CONSOLIDATED FUND DEFICIT					
(AS ABOVE)	-8,632	-1,558	-2,592	-460	-732
OTHER TRANSACTIONS:					
RECEIPTS	6,400	1,094	1,202	193	236
PAYMENTS	-7,640	-1,666	-1,444	-73	-188
TOTAL NET BORROWING BY THE NATIONAL					
LOANS FUND	-9,872	-2,130	-2,834	-340	-684
OTHER FUNDS AND					
ACCOUNTS	1,935	392	325	271	219
CENTRAL GOVERNMENT BORROWING					
REQUIREMENT	-7,937	-1,738	-2,509	-69	-465
(1) - EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CON-					
CERNED WITH THE FINANCING OF THE BORROWING REQUIRE-					
MENT.					

WITH THE JUNE FIGURES, DATA FOR THE FIRST QUARTER IS COMPLETE. CONSOLIDATED FUND EXPENDITURES WERE 17.4 PERCENT HIGHER THAN IN THE FIRST QUARTER OF FY 77/78 MORE OR LESS IN LINE WITH THE BUDGET FORECAST OF 16.8 PERCENT. HOWEVER, CONSOLIDATED FUND REVENUES WERE JUST 8.6 PERCENT HIGHER IN FIRST QUARTER COMPARED WITH THE BUDGETED RISE

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OF 10.2 PERCENT. THIS GAP IS OFFICIALLY ATTRIBUTED TO THE TIMING OF INCOME TAX CHANGES AFFECTING REVENUES RECEIVED BY INLAND REVENUE IN FY 78/79 COMPARED WITH A YEAR EARLIER.

THE CGBR FOR THE FIRST QUARTER OF FY 78/79 WAS 2.509 BILLION POUNDS, A RISE OF 771 MILLION FROM FIRST QUARTER OF FY 77/78. WHILE THIS IS IN EXCESS OF THE AVERAGE QUARTERLY TOTAL BUDGETED FOR THE YEAR, IT IS BY NO MEANS CLEAR AT THIS POINT THAT THE GOVERNMENT IS EXCEEDING ITS PLANNING FIGURES.

3. WHOLESALE PRICES. WHOLESALE PRICES ROSE MODERATELY IN JUNE. RAW MATERIALS AND FUELS PRICES, ABETTED BY A RISE IN THE VALUE OF STERLING, ROSE ONLY 0.4 PERCENT WHILE FINISHED GOODS PRICES ROSE 0.6 PERCENT. THE LATEST MONTHLY AND QUARTERLY FIGURES ARE SUMMARIZED BELOW:

1970 EQUALS 1U0			
	PERCENT		PERCENT
RAW	CHANGE FROM		CHANGE FROM
MATERIALS	12 MONTHS	FINISHED	12 MONTHS
AND FUELS	EARLIER	GOODS	EARLIER

1977-II	347.7	L8.8	259.2	20.9
III	340.5	11.0	267.7	19.9
IV	330.6	0.2	272.1	16.3
1978-I	326.7	- 4.3	279.0	12.5
(PROV) II	340.6	- 2.0	284.5	9.8
MAR	331.0	- 4.7	280.6	11.9
APR	337.4	- 3.5	282.7	10.7
(PROV) MAY	341.5	- 2.0	284.6	9.5
(PROV) JUNE	342.9	- 0.7	286.2	9.1

THE IMMEDIATE OUTLOOK FOR RAW MATERIALS AND FINISHED GOODS PRICES IS FAVORABLE. THE POUND CONTINUES RELATIVELY STRONG AND PUBLISHED INDICES OF WORLD COMMODITY PRICES EXPRESSED IN STERLING SHOWING A 3-4 PERCENT DROP IN PRICES BETWEEN MID-JUNE AND MID-JULY SHOULD CONTINUE TO UNCLASSIFIED

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TEMPER PRICE INCREASES FOR AWHILE. FINISHED GOODS PRICE INCREASES APPEAR TO HAVE LEVELLED FOR THE MOMENT. OVER

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 L-03 H-02 PA-02 /136 W  
-----111516 121935Z /43

P R 121912Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8049  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
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THE PAST THREE MONTHS THESE PRICES ROSE AT AN ANNUALIZED RATE OF 8.0 PERCENT, A RATE SLIGHTLY HIGHER THAN THE 7.8 PERCENT ANNUALIZED RATE OF INCREASE DURING THE THREE MONTHS TO MAY. THE 12-MONTH RATE OF INCREASE APPEARS LIKELY TO DECLINE SOMEWHAT FURTHER IN THE NEXT MONTH OR TWO BEFORE STABILIZING IN THE 8-9 PERCENT RANGE EARLY IN THE FOURTH QUARTER. BY THEN THE SPRING BULGE IN BOTH MATERIALS AND LABOR COSTS, COUPLED WITH INCREASING LEVELS OF DEMAND, COULD EXERT UPWARD PRESSURE ON FINISHED GOODS PRICES.

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4. THE ELIGIBLE LIABILITIES OF THE BANKING SYSTEM FELL 0.3 PERCENT AND THEIR INTEREST-BEARING COMPONENT (IBELS) 1.2 PERCENT IN THE BANKING MONTHS ENDED JUNE 21. THE BANKING SYSTEM HAS THUS REDUCED ITS IBELS BY ABOUT 1/3 OF THE AMOUNT NEEDED FOR THE BANKING SECTOR ON AVERAGE TO BE WITHIN THE LIMITS SET BY THE CORSET FOR THE AVERAGE OF AUGUST THROUGH OCTOBER. (SEE LONDON 9190.) THE CORSET WAS ANNOUNCED JUNE 8 AND SO WOULD HAVE ONLY AFFECTED THE BANKING SYSTEM FOR PART OF THE BANKING MONTH. ON THE OTHER HAND, THE ANNOUNCEMENT OF THE JUNE 8 MONETARY PACKAGE WAS FOLLOWED BY A VERYHIGH LEVEL OF GILT SALES WHICH OUGHT TO HAVE HELPED DEPRESS THE GROWTH OF ELIGIBLE LIABILITIES. (SEE LONDON 9437, PARAGRAPH 3.)

THE RECENT STATISTICS ON ELIGIBLE LIABILITIES, RESERVE ASSETS AND RESERVE RATIOS MAY BE SUMMARIZED:

MILLIONS OF POUNDS

	JUNE 21	CHANGE FROM MAY 17
ELIGIBLE LIABILITIES	44,370	- 133
OF WHICH INTEREST-		
BEARING	29,733	- 367
TOTAL RESERVES	6,141	- 59
OF WHICH		
BALANCES WITH THE		
BANK OF ENGLAND	393	42
MONEY AT CALL WITH THE		
DISCOUNT MARKET	3,290	- 49
U.K. AND NO. IRELAND		
TREASURY BILLS	834	- 86

BRITISH GOVT. STOCKS WITH ONE YEAR  
OR LESS TO MATURITY 455 - 43  
COMBINED RESERVE RATIO (PERCENT) 13.8 - 0.1

5. STATISTICS FROM THE BALANCES OF THE LONDON CLEARING  
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BANKS ON JUNE 21 SHOWED A SHARP 591 MILLION POUND INCREASE IN THEIR ADVANCES TO THE PRIVATE SECTOR, WHICH NOW STAND AT 18,819 MILLION POUNDS. TOTAL ASSETS AND LIABILITIES ROSE 1,344 MILLION POUNDS DURING THE BANKING MONTH TO 63,122 MILLION POUNDS. FOREIGN CURRENCY MARKET LOANS INCREASED 582 MILLION POUNDS TO 11,228 MILLION POUNDS IN CONTRAST TO A 391 MILLION POUND INCREASE IN FOREIGN CURRENCY BORROWING TO 17,386 MILLION POUNDS. FOREIGN CURRENCY INTERBANK TRANSACTIONS ARE NOT AFFECTED BY THE CORSET, AND U.K. BANKING SECTOR FOREIGN CURRENCY DEPOSITS ROSE 302 MILLION POUNDS.

6. THE PROVISIONAL SEASONAL ADJUSTMENT FACTORS TO BE APPLIED TO MONEY STOCK MOVEMENTS FOR THE JUNE BANKING MONTH HAVE BEEN CHANGED. THE NEW FACTORS, TO BE SUBTRACTED FROM THE UNADJUSTED DATA, ARE

(MILLIONS OF POUNDS)

NOTES AND COIN	30
PRIVATE SECTOR STERLING	
SIGHT DEPOSITS	-260
M1	-230
STERLING M3	40
BANK LENDING TO THE	
PRIVATE SECTOR	80

7. STERLING HAD A FAIRLY STRONG WEEK, BOTH AGAINST THE DOLLAR AND ON A TRADE-WEIGHTED BASIS. THE BANK OF ENGLAND WAS SEEN INTERVENING TO KEEP THE RATE UNDER \$1.89. GOOD WHOLESALE PRICE AND MONETARY FIGURES HELPED, AS DID INITIAL REPORTS OF THE OIL FIND OFF THE SHETLANDS (LONDON 10831). THE MARKET ALSO ANTICIPATES GOOD RETAIL PRICE AND TRADE FIGURES ON FRIDAY. AS A RESULT, THERE HAS BEEN GOOD DEMAND FOR STERLING ALL WEEK. FACTORS CITED BEHIND DOLLAR WEAKNESS INCLUDE FEAR THAT FED CHAIRMAN MILLER MAY BE WEAKENING IN HIS RESOLVE TO FIGHT INFLATION AND CONTROL MONEY SUPPLY GROWTH(BECAUSE OF HIS VOTE AGAINST THE DISCOUNT RATE INCREASE) AND GENERALIZED FEARS OF HIGHER  
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U.S. INFLATION. ON REFLECTION, DEALERS HAVE DIVIDED

VIEWS WHETHER THE BREMEN EC MONETARY PROPOSALS MEAN ANY-  
THING SIGNIFICANT (GENERALLY CONSIDERING NOT MUCH IN THE  
NEXT YEAR OR SO) AND DON'T EXPECT MUCH FROM THE BONN SUM-

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EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 H-02 L-03 PA-02 /136 W  
-----112084 122018Z /70

P R 121912Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8050  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
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MIT -- SOME SAY THIS HAS ALREADY BEEN DISCOUNTED.

8. THE GILT MARKET ADVANCED MODESTLY DURING MOST OF THE  
WEEK, FALTERING A BIT ON TUESDAY. MARKET SOURCES SUG-  
GEST THAT THE MARKET'S INDIGESTION FROM THE LARGE TAP  
SALES FOLLOWING THE CHANCELLOR'S JUNE 8 MONETARY PACKAGE  
WAS BEGINNING TO PASS, AND INSTITUTIONAL LIQUIDITY WAS  
GRADUALLY BEING REBUILT. THE MARKET MAY ALSO HAVE BEEN  
HELPED EARLY IN THE WEEK BY THE EXPECTATION OF GOOD STA-  
TISTICS ON ELIGIBLE LIABILITIES. THE MARKET APPROACHED  
THE PRESUMED LONG TAP PRICE EARLY TUESDAY BUT FELL SHORT

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AS THE MARKET EASED.

## 9. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD \$
7/5	1.8700	61.4	184-3/8
7/6	1.8675	61.6	182-5/8
7/7	1.8735	61.6	184-1/8
7/10	1.8895	62.0	186-7/8
7/11	1.8845	61.9	185-5/8
CHANGE 7/4-7/11 UP 0.0100 UP 0.5 UP 3/4			

## 10. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/5	- 0.45	- 1.30	- 2.50
7/6	- 0.37	- 1.20	- 2.95
7/7	- 0.30	- 1.18	- 2.45
7/10	- 0.35	- 1.07	- 2.23
7/11	- 0.45	- 1.18	- 2.50
CHANGE 7/4-7/11 DOWN 0.02 UP 0.02 UP 0.05			
(ALL FIGURES IN CENTS)			

## 11. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/5	7-3/4	8-1/2	9-1/16
7/6	8-1/8	8-1/2	9
7/7	8-5/8	8-9/16	9
7/10	8-1/8	8-1/2	9
7/11	8-1/16	8-5/8	9-1/16
CHANGE 7/4-7/11 DOWN 1/8 DOWN 1/8 DOWN 1/16			

## 12. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

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## RATE DIFFERENTIAL

DATE	RATE DIFFERENTIAL
7/5	1-5/8
7/6	1-17/32
7/7	1-3/8
7/10	1-7/16
7/11	1-3/8
CHANGE 7/4-7/11 DOWN 1/8	

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 H-02 L-03 PA-02 /136 W  
-----111639 121947Z /70

P R 121912Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 8051  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
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AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EEBURGH  
USMISSION GENEVA  
USDOC WASHDC

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### 13. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/5	9-27/32	10-1/32	10-3/8
7/6	9-47/64	9-15/16	10-1/4
7/7	9-13/16	9-7/8	10-3/16
7/10	9-7/8	9-7/8	10-1/16
7/11	10-1/32	9-15/16	9-31/32
CHANGE 7/4-7/11	UP 5/32	DOWN 1/8	DOWN 13/32

14.INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERN-  
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MENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
7/5	11.96	12.87	13.14
7/6	11.86	12.79	13.06
7/7	11.79	12.75	13.03
7/10	11.65	12.64	12.96
7/11	11.73	12.68	13.00

CHANGE 7/4-7/11 DOWN 0.18 DOWN 0.11 DOWN 0.08

15. THE MINIMUM LENDING RATE REMAINED 10 PERCENT, SET BY THE BANK OF ENGLAND JUNE 8.

16. THE TREASURY BILL RATE ROSE 0.0043 PERCENT TO 9.2769 PERCENT AT FRIDAY'S TREASURY BILL AUCTION AS 608.38 MILLION POUNDS IN BIDS WERE RECEIVED FOR THE 300 MILLION POUNDS IN TENDERED BILLS. THIS WEEK 300 HILLION POUNDS OF BILLS WILL BE OFFERED AS THE SAME AMOUNT MATURE.

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
**Concepts:** DATA, ECONOMIC DEVELOPMENT  
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**Copy:** SINGLE  
**Draft Date:** 12 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Office:** ACTION EUR  
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**Original Handling Restrictions:** n/a  
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**Previous Handling Restrictions:** n/a  
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**Retention:** 0  
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**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2040000  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC DEVELOPMENTS FOR PERIOD JULY 6 - 12 SUMMARY: WHOLESALE PRICE INCREASE MODERATED IN JUNE. REVISED FIGURES SHOW MORE RAPID GROWTH IN FIRST QU  
**TAGS:** ECON, UK  
**To:** STATE TRSY  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014